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TAGS: [PREL](#) [PGOV](#) [ECON](#) [EFIN](#) [ENRG](#) [SU](#)
SUBJECT: UK AND NORWAY SEE OIL-REVENUE SHARING AS KEY TO MOVING CPA
PROCESS FORWARD

REF: KHARTOUM 145

11. (SBU) Summary. On February 11, U.S., UK and Norwegian emboffs met to discuss a UK proposal to encourage a long-term North-South agreement on oil-revenue sharing. The UK plans two meetings to develop this idea, in Khartoum and in London. Emboffs explained that the U.S. is not able to participate in a debt-relief package for Sudan. Norwegian oil advisor believes that the two parties' growing comprehension of their mutual dependence when it comes to developing the country's oil resources provides hope that they may negotiate such a deal. End summary.

Oil-Sharing Arrangement Key to the CPA

12. (SBU) On February 11, emboffs met at the Norwegian Embassy with UK Embassy Khartoum DFID Chief Catriona Lang, Khartoum DFID economist Andrew Hall, and Norwegian Petroleum Advisor Anders Hannevik to discuss a UK proposal to encourage the NCP-dominated Government of National Unity (GNU) and the Government of South Sudan (GoSS) to negotiate a long-term (i.e., post-2011) oil-wealth sharing agreement. (UK paper was emailed previously to AF/SPG and to EEB.) That both Khartoum and Juba depend on shared revenues from oil produced in the South represents both a risk and an opportunity leading up to and following the 2011 referendum on Southern independence.

13. (SBU) The UK believes that reenergizing Sudan's Comprehensive Peace Agreement (CPA) process requires a long-term oil-wealth sharing agreement between North and South. Such a deal would include a Modus Vivendi on Abyei; separating the boundary issue from access to Abyei oil revenues. The UK thinks that the SPLM is prepared to reach such an agreement and that the NCP can be induced to do so if offered badly needed relief on its US\$27 billion external debt. The UK argues that such a debt-relief package could be part of a broader process to normalize Sudan's relationship with the international community in response to implementation of the CPA and resolution of the Darfur conflict.

14. (SBU) Lang said that the UK plans two meetings to develop the proposal further before presenting it to the parties. The first would be held in Khartoum at the Ambassadorial level the week of February 18, followed by a London meeting in March with representation from capitals. Both meetings would involve the U.S., UK, Norway and the World Bank's Sudan petroleum expert. (Note: Lang also proposed including the Netherlands and the UN, but emboffs recommended that initial discussions be kept as small as possible - possibly to include others later in the process. If AF/SPG has a different view on the issue of participation, please inform post so we may be in contact with UK planners. End note.) The UK's draft agenda and invitation list for the London meeting are being faxed to AF/SPG.

¶5. (SBU) Emboffs noted that the United States is prohibited both by sanctions regulations and congressional legislation from providing debt relief to Sudan. Lang asked under what circumstances the U.S. might be able to participate in the future. Emboffs replied that Washington will provide guidance on the parameters of our sanctions.

Mutual North-South Dependence

¶6. (SBU) Hannevik commented that North and South Sudan are in a situation of mutual dependence. Both governments rely on oil revenues to finance their budgets (approximately 50% for the Government of National Unity in the North, almost 100% for the Government of South Sudan) and that this dependence is certain to continue for the foreseeable future. While oil production is declining in the North, it is increasing south of the 1956 border that divides the country. However, all of Sudan's oil is exported via the pipeline that runs through the North to Port Sudan. Although there is widespread discussion in the South of constructing a separate pipeline to export Southern oil through Ethiopia or Kenya, Hannevik considers such plans financially unfeasible and an independent South would continue to require Northern cooperation to export its oil.

¶7. (SBU) Hannevik said he has briefed the NCP and there is growing awareness of the challenges they face. Hannevik advocates revisiting many of the arrangements made at the time of and before the CPA, to better reflect changed circumstances. For example, Hannevik believes that Sudan should renegotiate oil contracts signed prior to the CPA, arguing that they do not reflect the much higher world oil prices of today. The NCP is reluctant to do so, arguing that the CPA guaranteed all existing arrangements.

KHARTOUM 00000227 002 OF 002

¶8. (SBU) Hannevik observed that Abyei oil revenues are far more important relatively to the North (of whose total oil revenue Abyei constitutes 50%) than to the South (for whom it constitutes only 10%). Abyei contributes 7% of Sudan's total oil revenues. He added that, given this disparity, GoSS President Salva Kiir should "jump at the opportunity" to trade future Abyei oil for guarantees to be able to export oil through the north. However, he noted that Abyei is an emotional as well as a practical issue for SPLM leaders.

¶9. (SBU) Hannevik said that the growing awareness on both sides of their mutually dependent situation gives him hope that a deal might be struck. He estimates that the GNU could not hope to receive any more than the 50% share of southern oil revenues that it currently receives under the CPA. The other extreme would be the GoSS keeping 100% of the revenues. Any long-term arrangement will have to lie somewhere in between these two extremes.

Comment

¶10. (SBU) The UK initiative is worth exploring, especially in regard to oil sharing schemes following possible secession - the parties need to be prepared for such discussions and donor presentations on options could be helpful. Although policy and legislation prohibit the U.S. from participating in the debt-relief package that the UK proposes, it is worth participating in discussions of other incentives that may be harmonized with the UK and Norwegian positions (reftel). It also noteworthy that the Norwegian oil envoy agreed to give a presentation at the proposed London meeting. Although the Norwegians have occasionally appeared skittish in working together on oil, they now appear ready to share their expertise, though there may be a divergence in views between Oslo and the Norwegian Embassy in Khartoum. Post will be on close contact with AF/SPG regarding preparations for the proposed meeting.

POWERS